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FX and Interest Rates Thoughts

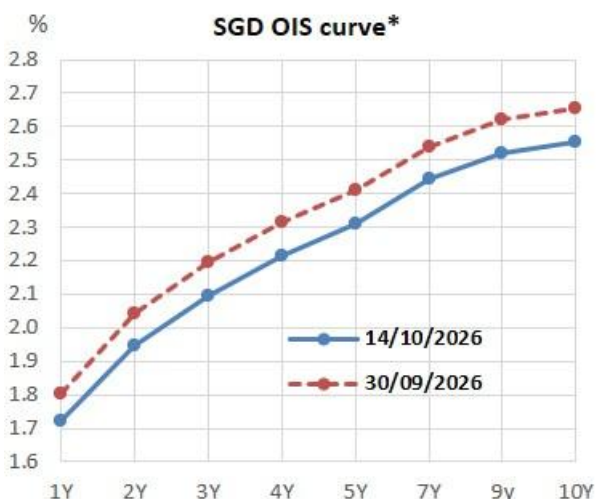
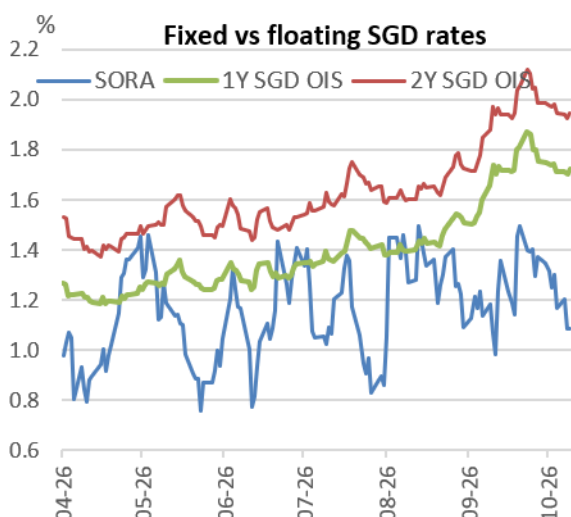
MAS kept policy on hold

- **Policy hold.** At its 14 October meeting, MAS kept policy on hold, after tightening twice at the April and July meetings. We estimate the current slope of the policy band at around 1.25% p.a. Beyond the decision itself, the accompanying statement was somewhat less hawkish than July's. One of the key highlights is MAS's assessment of the output gap, which is now expected to narrow through 2027, compared with July's expectation of further widening. MAS also narrowed its 2026 core inflation forecast to 1.5–2.0%, from 1.5–2.5%, while inflation is expected to ease more noticeably from mid-2027. For 2027, both core and headline inflation are projected to average 1.5–2.5%. That said, MAS continues to see inflation risks tilted to the upside, particularly from higher energy and food prices, as well as broader spillovers from the AI-related boom that could lift domestic cost pressures. On the other hand, a sharper pullback in AI investment or a larger-than-expected rise in global interest rates could weigh on growth and inflation. MAS expects AI-related activity to support growth in the near term before moderating in 2H 2027. Overall, the statement suggests that MAS is comfortable with the existing appreciating S\$NEER path for now, with less urgency for further tightening.
- **FX reaction to the decisions was fairly limited.** Market reaction to the decision was fairly limited. Our model shows that the S\$NEER dipped only marginally, from around 1.86% above the policy band midpoint before the announcement to about 1.80% after. While the policy hold may be a surprise, markets had only anticipated a slight tightening, which may explain the limited reaction. Importantly, a hold does not amount to easing, as MAS continues to maintain an appreciating S\$NEER policy stance. With the MAS decision out of the way, USDUSD should continue to take its cues from broader market developments, particularly USD direction and UST yields, with tonight's US CPI release the next key event risk.
- **SGD rates.** SGD OIS were initially paid up by 2-3bps upon MAS S\$NEER policy decision but have since retraced back as of writing. Overall, the impact on front-end SGD rates is likely to be limited; if there is any impact from the S\$NEER decision, it is mildly to the upside for rates. First, no change vs expectation for a slight slope increase could mean the expected downside pressure on front-end SGD rates via FX swaps fades – but we note the FX swap impact has been very muted over recent S\$NEER policy decisions. Second, the

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liquidity impact of FX intervention has been bigger and hence if S\$NEER retraces lower that would mean lower chance of intervention and liquidity injections, thus less downward pressure on SGD rates.



Source: Bloomberg, OCBC Group Research

*as of 14 October Asia morning

- When we last reviewed our interest rates forecasts at end-September, we highlighted the risk of retracement lower in SGD rates in this quarter. Since then, SGD OIS have fallen by cumulative 10-13bps across the curve before this morning's reaction to MAS policy decision, to levels that are lower than our year-end expectations. From here, we expect upward moves in SGD rates at a very gradual pace. First, SORA fixings ranged between 1.0846% and 1.3724% thus far this month (as of 13 Oct); month-to-date average of 1.26% was mildly higher than September's average of 1.24%, reflecting a slow grind higher with two-way moves in line with our expectations. Second, at Tuesday's auctions, the spreads between MAS bills cut-offs and implied SGD rates, especially at the 36W tenor, narrowed. 4W and 12W MAS bills cut off at 1.69% and 1.84%, both being 1bp lower than last week's cut-offs. The spread over implied SGD rates narrowed mildly. The 36W MAS bills cut off at 1.88% versus 2.00% at the 29 September auction. The spread between 36W MAS bills cut-off and implied 9M SGD rates narrowed more notably, reflecting solid investor demand. Overall, SORA not rising at a more rapid pace and investors demand at current yield levels may slow the upward normalization in SGD rates. We maintain year-end forecasts for 2Y, 3Y and 5Y SGD OIS at 2.05%, 2.20% and 2.40%, respectively.

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